# HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

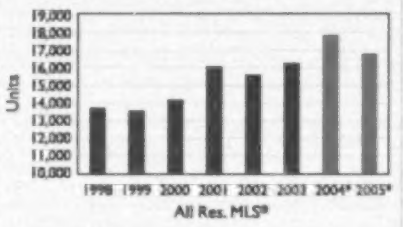
## Housing Market Overview

### Rising Mortgage Rates Bring Cooling Trend

Edmonton's residential resale market will set new records for both sales and prices this year, but higher borrowing costs will undercut demand in 2005. A strong economy coupled with historically low mortgage rates has persuaded many renters to move into home ownership this year and numerous existing homeowners to trade up. Thanks to an improved supply of listings, price increases have dipped below the double-digit gains seen in 2002 and 2003. This trend will continue next year, with a shift from sellers' to balanced market helping to further restrain price increases.

New home construction across Greater Edmonton has slowed in 2004 as builders and developers have responded to an increase in unoccupied spec homes and higher supplies of resale and rental units. After nine months, Edmonton's total housing starts have dropped by 16 per cent from the number of homes started from January to September of 2003. The decline is more pronounced in the multi-family sector, with the industry responding to concerns over elevated levels of unoccupied new condominium apartments. Despite the reduction in activity, total housing starts are on pace to exceed 10,000 units for the third consecutive year. In 2005, purchasing constraints associated with higher mortgage rates will cause further reductions in new home construction.

Chart 1
**Homes Sales Peak in 2004**




Source: EREB *Forecast: CMHC

When the results of CMHC's annual October Rental Market Survey are released later this year, we expect to find a Metro-wide apartment vacancy rate of around 5.2 per cent, up from 3.4 per cent in October 2003 and 1.7 per cent in the fall of 2002. With vacancies on the rise this year, landlords have been forced to hold the line on rent increases to help shore-up occupancy levels. Others, particularly newer buildings with higher rents, are offering incentives to lure new tenants. Meanwhile, operating costs are on the rise and net incomes from rental properties are getting squeezed. In 2005, vacancies will head lower in response to falling rental unit completions. Rents will inch higher next year due to reduced competition from the new rental and home ownership markets and rising operating costs.

## EDMONTON

FALL 2004

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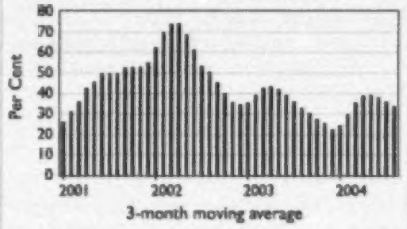
# Resale Market

## Demand Weakens in 2005

Evidence to the end of August suggests that Edmonton's residential resale market will set new records for both sales and prices this year. Strong job creation and income growth combined with low mortgage rates have encouraged many renters to move into home ownership this year. As well, many existing home owners have decided to tap into their recent gains in home equity and trade up. A listless stock market has also encouraged continued high levels of investment spending in the residential real estate sector, helping to drive prices higher. For Realtors, these have been the best of times thanks to an improved supply of listings to go along with the unprecedented levels of demand. Markets are more balanced this year and, as such, price increases have moderated from the double-digit gains seen in 2002 and 2003. Going forward into 2005, the landscape will gradually alter. While the economy will continue to crank out a respectable volume of new jobs, higher mortgage rates will raise the cost of purchasing a home, causing demand to throttle-back. As demand cools, relative to supply, the sales-to-active listings ratio will move towards the balanced category with neither sellers nor buyers holding much of an advantage.

Chart 2 shows the trend line for the sales-to-active listings ratio (SALR), which measures the proportion of homes listed on the Edmonton Real Estate Board's MLS® that sell each month. Typically, a SALR of between 30 and 50 per cent in Edmonton is indicative of a sellers' market, while the market place is considered more balanced when the SALR is in the 20 to 30 per cent range. During the second quarter of 2004, the ratio averaged near 39 per cent, suggesting a market that favours sellers. However, during the first two months of the third quarter, the ratio slipped to an average of 34 per cent which is closer to the balanced market range.

Chart 2
**Sales-To-Active Listings Ratio**




Source: EREB Aug '04

So, how did the market move towards a balanced position in the summer of 2004 when homes were selling at a record pace? The simple answer is improved supply. While total residential sales increased by 11 per cent in the first eight months of the year, the pool of active listings also increased as new listings grew by a margin of 13.5 per cent. More selection meant that homes on average were taking longer to sell. Normally, we would associate sellers' markets with average listing periods of between 30 and 40 days. However, homes took on average 42 days to sell during the second quarter of 2004, compared with 36 days in the second quarter of 2003. Going forward, CMHC expects listing periods to move toward the 50-day range next year as market conditions move towards the balanced category. As homes take longer to sell, vendors will be forced to temper their price expectations, leading to more modest price gains in 2005.

## Record Single-Detached Sales in 2004

Table 1 provides MLS® sales and price statistics for single-family homes for the first seven months of 2004. While the overall Metro region has been on a record-setting pace to the end of July, some areas such as Edmonton's Southwest and the community of Sherwood Park have enjoyed above-average demand. These are two of the region's strongest new home markets this year and the high resales are indicative of extensive trade-up activity. Next year, we expect single-detached home sales to pull back across Metro due to affordability constraints (outlined below). Nevertheless, overall sales will still eclipse levels set in 2003.

Table 1
**MLS SALES - SINGLE-DETACHED UNITS**
January - July (% chg 2003/2004)

| | Sales | | | Average Price ($) | | | Median Price ($) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | %chg | 2003 | 2004 | %chg | 2003 | 2004 | %chg |
| Northwest | 242 | 279 | 15.3 | 154,861 | 168,496 | 8.8 | 153,000 | 162,000 | 5.9 |
| North Central | 970 | 1,060 | 9.3 | 179,287 | 191,915 | 7.0 | 172,000 | 184,000 | 7.0 |
| Northeast | 375 | 362 | -3.5 | 153,643 | 158,500 | 3.2 | 149,900 | 156,900 | 4.7 |
| Central | 337 | 309 | -8.3 | 117,017 | 133,427 | 14.0 | 112,000 | 125,000 | 11.6 |
| West | 790 | 726 | -8.1 | 208,389 | 232,663 | 11.6 | 194,000 | 209,510 | 8.0 |
| Southwest | 736 | 899 | 22.1 | 251,437 | 275,395 | 9.5 | 229,700 | 245,000 | 6.7 |
| Southeast | 980 | 1,096 | 11.8 | 177,441 | 185,484 | 4.5 | 170,000 | 176,000 | 3.5 |
| St. Albert | 565 | 646 | 14.3 | 216,895 | 235,724 | 8.7 | 204,000 | 216,250 | 6.0 |
| Sherwood Park | 535 | 653 | 22.1 | 215,737 | 233,224 | 8.1 | 206,000 | 219,000 | 6.3 |
| Leduc | 156 | 148 | -5.1 | 165,908 | 179,487 | 8.2 | 158,000 | 167,500 | 6.0 |
| Spruce Grove | 184 | 211 | 14.7 | 172,147 | 184,173 | 7.0 | 167,250 | 173,500 | 3.7 |
| Ft. Saskatchewan | 122 | 130 | 6.6 | 163,406 | 183,975 | 12.6 | 154,950 | 170,500 | 10.0 |
| **All EREB areas** | **6,844** | **7,781** | **13.7** | **184,264** | **199,980** | **8.5** | **174,000** | **186,000** | **6.9** |

Source: Edmonton Real Estate Board



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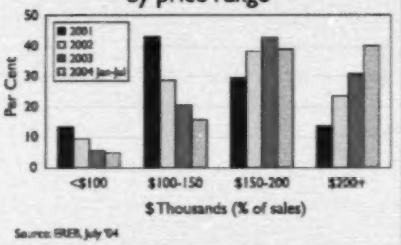
## House Price Increases To Throttle-Back

The rate of price increase for existing single-family homes has remained close to the eight per cent rage in 2004. As shown in Chart 3, the trend toward higher-priced home sales has continued this year, with units priced over $200,000 grabbing an ever larger share of overall sales. However, slower price growth is anticipated in 2005 due to increased competition and extended listing periods. Rising mortgage rates will also undermine purchasing power causing potential buyers to temper their expectations on how much home they can afford to purchase. For buyers looking for homes priced under the $150,000 price tag, there will be fewer single-family units to choose from, prompting a switch into multi-family housing including semi-detached homes or row and apartment condominiums.

Chart 3
**Single-Family MLS® Sales**
by price range




Source: ERER, July '04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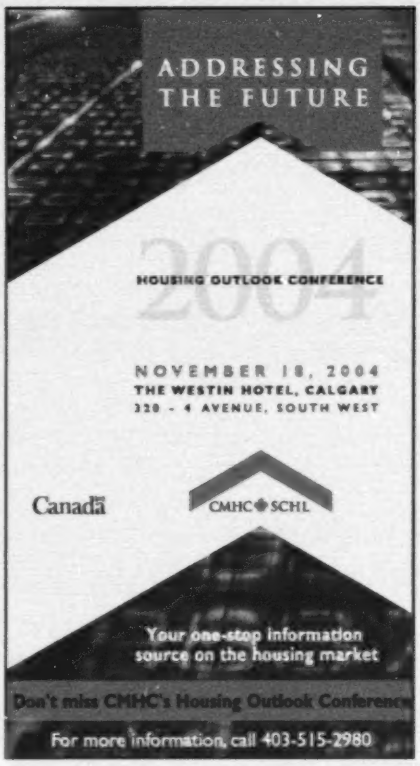


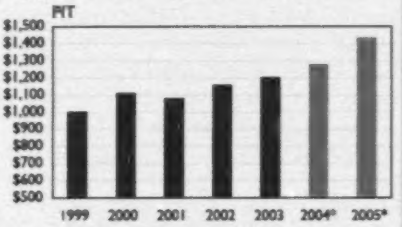


## Spotlight On Carrying Costs

In 2003, falling mortgage rates helped to buffer the impacts of rising home prices across the region. For example, while average single-detached resale house prices rose by over eight per cent last year, the typical carrying costs associated with owning such a home (see Chart 4) rose by only four per cent thanks to a steady decline in interest rates. On an annual basis, the story will be similar this year. Lower average mortgage rates will convert an 8.3 per cent expected increase in house prices this year into a 6.4 per cent rise in monthly payments.

In 2005, the situation will reverse with higher mortgage rates magnifying the impacts of rising prices. While house price increases are expected to moderate next year, monthly carrying costs will climb by over 12 per cent to an average of $1,435 PIT. These double-digit increases in typical monthly payments will undermine demand as affordability erodes for many prospective buyers. Some renters, currently at the margin, will no longer qualify for home financing as their income growth fails to keep pace with the rising costs of home ownership next year. Climbing apartment vacancy rates have put a cap on rents this year and we expect rent hikes to be very modest in 2005. With the rise in home ownership costs rapidly outpacing rent increases next year, more tenants will decide to keep renting.

Chart 4
**Typical Monthly Carrying Costs**




Source: ERER/CMHC Calculation/*Forecast
Average MLS® House Price, 10% down, 25 year amortization, taxes.

## Resale Condo Market Remains Active

Edmonton's existing condominium market has enjoyed solid demand this year, with strong sales from buyers looking for an alternative to higher-priced single-detached homes. As well, real estate investors have been lured by the strong price performance of condos vis-a-vis other investments in recent years. Meanwhile, a surge in new listings has helped to rein-in the double-digit price increases witnessed in previous two years. In 2002 and 2003, resale condo prices increased on an annual basis by 18.5 and 13.6 per cent respectively as low mortgage rates, surging rent levels and robust economy pumped-up demand for this traditionally affordable home ownership option. To the end of August this year, price gains have moderated to the nine per cent range for an average price of just over $134,400. New listings have soared this year, up by 23 per cent to the end of August, as many condo owners have opted to trade up and a larger number of new spec units have also made their way onto the MLS®.

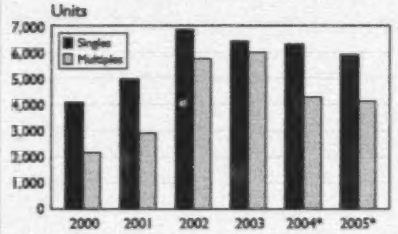
Condo sales will end 2004 at close to 4,650 units, setting a new record and representing an increase of close to nine per cent. Next year, higher mortgage rates as well as rising condo fees associated with climbing operating costs will undermine affordability and cause sales to pull back by five per cent. Meanwhile, supply will be augmented by investor-owned units put up for sale in an environment of weaker rates of return on rental properties. Lower demand and higher supply will translate into more moderate price gains. A typical condo in Edmonton will sell for close to $142,000 in 2005, representing a gain of just over five per cent, compared to eight per cent in 2004.

# New Home Market

## Slowdown To Continue in 2005

New home construction across Greater Edmonton has slowed in 2004 as builders and developers respond to increased competition from unoccupied spec homes and higher supplies of existing units either for sale or rent. After nine months, Edmonton's total housing starts have dropped by 16 per cent from the number of homes started from January to September of 2003. While inventory adjustment has been the story in 2004, affordability impacts associated with higher mortgage rates will result in further retrenchment in 2005.

Chart 5
**Housing Starts Trends Lower in 2005**




Source/*Forecast: CMHC

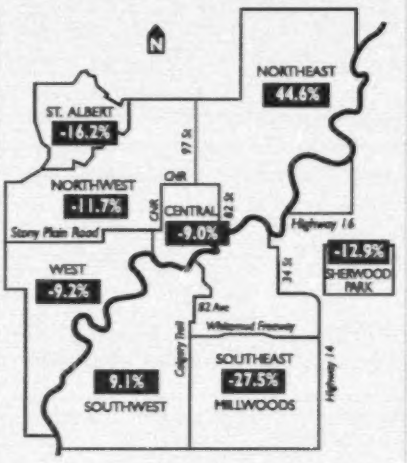
## Single-Detached Starts Show Resilience in 2004

On a year-to-date basis, single-detached starts across Metro have dropped by less than one per cent from the same nine month period in 2003. For much of the past year, single-family home builders have been throttling-back production levels across the region in response to rising supplies of unsold spec homes and higher resale listings. However, builders gained momentum in the third quarter with strong gains in August and September in response to brisk sales and reduced concerns over inventories. Expect single starts to end 2004 close to 6,300 units, representing a decline of 1.4 per cent. 2004's tally will nonetheless count as the fourth best year on record for the region's single-family home builders. In 2005, we anticipate reductions of around 6.3 per cent to 5,900 units, as higher mortgage rates undercut demand and a balanced resale market offers increased competition for new homes.

## New House Prices Keep Climbing

New house prices remain on the upswing in Edmonton, but the rate of increase has moderated from recent years. In 2002 and 2003, a typically new single-detached home

**SINGLE STARTS**
Fewer Starts in Most Locations
January - December (% chg 2002/2003)

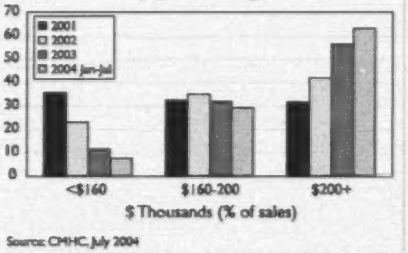



Source: CMHC

increased in price by around nine per cent annually, largely due to higher costs for land, labour and construction materials associated with an industry running at cost to capacity. This year, activity levels have throttled back slightly but price pressures remain for both land and various input costs of building a house. During 2005, we anticipate new homes will have increased in price by another six per cent over this year to an average sale price of $252,000.

A typical new single-family home sold during the first eight months of the year for an average price of $236,380 including lot and GST, representing an increase of close to six per cent. As shown in Chart 6, the proportion of new homes priced over $200,000 has increased steadily in recent years and now accounts for over 63 per cent of the market place across the region. While consumer preferences drive some of the move to higher-priced new homes, input prices especially building components

Chart 6
**New Single-Detached Absorptions**
by price range




Source: CMHC, July 2004

are still taking their toll. Higher energy costs this year have bolstered prices for items such as asphalt shingles, steel, concrete, PVC, glass and vinyl siding. Prices for lumber, plywood and OSB have been driven higher this year by strong new home construction across North America. Forest fires in British Columbia and rebuilding efforts that will follow the damage from a terrible U.S. hurricane season will also maintain upward pressure on prices for wood products going into next spring.

Adding to the price pressure on new housing is a continuation of the strong renovation markets seen across the county. Renovations predictably track existing home sales, as households typically renovate within the first three years of buying a house. The recent boom in resales will keep renovation markets strong going into 2006 and skilled labour shortages will also remain an issue. This past summer Edmonton was hit by several severe storms causing millions of dollars in damage and flooding to approximately 3,500 basements. Due to a lack of skilled workers, repair contractors currently can't keep up with the demand of people wanting their basements repaired. With the new housing sector expected to throttle-back somewhat in 2005, this labour crunch may ease once the backlog of flood damage repairs is finished.

## Balanced Market For New Single-Family Homes

New single-family units under construction in August were seven per cent below levels recorded in August 2003. With fewer units in progress and only a slight increase in standing inventory, the total supply numbers were off by six per cent from last August. Using a three-month average absorption rate of 540 units per month, there was 6.8 months supply of new single-family homes across the region in August, representing a balanced market.

Table 2 provides sales and price statistics for new home sales across the region during the first seven months of 2004. Edmonton's Southwest has overtaken the Northwest as the number one area for new home sales, with Strathcona County retaining the number three spot. Price changes have not been uniform across the region but readers should interpret these numbers with care. Some areas showing large average price increases, such as North-central and South-central are districts with relatively few sales and, as such, are more subject to distortions in the average number. In these cases, median price change may be


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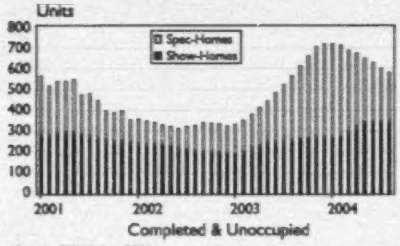
Chart 7
**Spec-Home Inventory Heads Lower**




Source: CMHC, Aug 2004

more instructive. Using the median price, for example, the changes recorded in the North-central and South-central districts were much closer to the overall new house price change across Metro.

## Land Supplies Adequate

The supply of lots for new single-family homes remains adequate across the region this summer, but this has not translated into a slowdown in price increases. According to the Doesburg Report, produced quarterly for Edmonton Urban Development Institute (UDI), there were 6,956 vacant single-family lots across the Capital region at the end of the second quarter, representing a 24 per cent increase from the 5,608 vacant lots reported in June 2003. Based on a 540 single-family unit per month absorption rate, this inventory (not including lots under construction) represents a 13 month supply.

Despite the increased lot inventory, prices have continued to head higher, according to CMHC's market absorption survey. During the first half of 2004, the price of a standard-sized lot for a new a single-detached home increased by over 10 per cent from the same period last year to $70,630. This compares with a 13 per cent price increase during the first half of 2003. Going forward, we expect upward price pressure to continue despite good supplies because of higher prices for replacement land, reinforced steel (rebar), asphalt, and concrete.

## Multiple Starts Pull Back

In both 2002 and 2003, Edmonton's multi-family developers started work on the highest number of units seen in 20 year. Not since 1982 had Metro witnessed consecutive years of production above the 5,500 unit mark. The market has been driven by a robust combination of a vigorous economy, low interest rates, rising asset values, and strong demand from renters, home buyers and real estate investors. In 2004, construction activity has throttled back both within Edmonton City and many of the surrounding communities. While the demand side of the equation is still in relatively good shape in the summer of 2004, the supply side of the ledger is pointing to continued weakness in the months ahead. Multiple starts will end the year at just over 4,100 units, for a decline of over 31 per cent. This will nonetheless represent the third best year for multiple starts since 1982. Demand for new condos will remain solid in 2005 due to their attractive price points vis-a-vis new single-detached units. However, healthy supplies of both new condo apartments and rental units will prevent any improvement in construction levels next year.

To the end of August, multi-unit starts in Greater Edmonton have dropped by 37 per cent from the first eight months of 2003. Both row and apartment new construction so far this year has been scaled back by a similar margin of near 46 per cent. Despite this slowdown, the supply of multiple units (which include units under construction plus the inventory) remained close to the 6,500 unit mark at the end of August, largely unchanged from one year ago. Based on an average monthly absorption rate so far this year of 350 units per month, this represents 18.5 months of supply across the region. Condominiums represent the bulk of multi-family supply across Metro this summer and industry concerns over elevated levels of unoccupied new units will put a damper on condominium starts going into 2005.

The bright spot in Edmonton's new multi-unit sector can be found in semi-detached housing.

Table 2
**NEW SINGLE-FAMILY ABSORPTIONS BY AREA**
January - July (%chg 2003/2004)

| | Sales | | | Average Price ($) | | | Median Price ($) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | %chg | 2003 | 2004 | %chg | 2003 | 2004 | %chg |
| North Central | 57 | 52 | -8.8 | 213,654 | 255,068 | 19.4 | 221,300 | 231,650 | 4.7 |
| Northeast | 153 | 227 | 48.4 | 205,700 | 205,203 | -0.2 | 195,000 | 194,900 | -0.1 |
| Northwest | 670 | 581 | -13.3 | 207,969 | 217,588 | 4.6 | 199,900 | 215,000 | 7.6 |
| South Central | 20 | 31 | 55.0 | 299,174 | 372,271 | 24.4 | 297,950 | 315,300 | 5.8 |
| Southeast | 460 | 436 | -5.2 | 197,546 | 213,313 | 8.0 | 184,000 | 205,900 | 11.9 |
| Southwest | 548 | 597 | 8.9 | 255,336 | 282,708 | 10.7 | 232,450 | 245,000 | 5.4 |
| West | 323 | 329 | 1.9 | 234,820 | 241,681 | 2.9 | 218,900 | 225,600 | 3.1 |
| Total Edmonton City | 2,233 | 2,253 | 0.9 | 222,150 | 239,280 | 7.7 | 205,100 | 219,800 | 7.2 |
| Fort Saskatchewan City | 45 | 49 | 8.9 | 221,000 | 223,527 | 1.1 | 215,200 | 211,000 | -2.0 |
| Leduc City | 66 | 64 | -3.0 | 196,100 | 198,734 | 1.3 | 190,000 | 196,250 | 3.3 |
| Parkland County | 133 | 99 | -25.6 | 193,001 | 203,639 | 5.5 | 175,004 | 196,422 | 12.2 |
| Spruce Grove City | 121 | 109 | -9.9 | 189,514 | 201,681 | 6.4 | 188,586 | 201,908 | 7.1 |
| St. Albert City | 181 | 171 | -5.5 | 271,780 | 285,661 | 5.1 | 247,200 | 254,900 | 3.1 |
| Strathcona County | 455 | 501 | 10.1 | 229,925 | 238,784 | 3.9 | 210,000 | 220,000 | 4.8 |
| Total Rural Municipalities | 1,368 | 1,377 | 0.7 | 216,729 | 228,366 | 5.4 | 199,000 | 212,000 | 6.5 |
| Edmonton CMA | 3,601 | 3,630 | 0.8 | 220,091 | 235,140 | 6.8 | 203,057 | 216,550 | 6.6 |

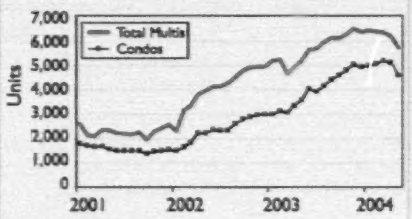
Source: CMHC

While row and apartment construction has been scaled back this year, semi-detached starts were up by seven per cent to the end of August. Semis have so far captured 11 per cent of total new housing this year compared with an average of 8.5 per cent in 2002 and 2003. Price pressures have made semis a more attractive option for many buyers, since a typical new semi sells for between 75 and 80 per cent of the cost of the average single-detached unit. As noted above, the price of a new single-detached home in Greater Edmonton will average close $252,000 next year. With higher costs also anticipated for mortgages, utilities, insurance and taxes, expect semi-detached starts to garner a larger slice of the total new construction pie next year.

## New Condos In Good Supply

Construction of new row and apartment condominiums slowed dramatically during the first eight months of 2004 as developers strove to reduce production to more sustainable levels. However, total supply which includes both units in inventory and those currently under construction was 14 per cent higher year-over-year for row and apartment units in August. While average monthly absorption rates have increased in the past year, we anticipate a continued increase in inventory this fall, particularly in Edmonton's downtown.

Chart 8
**Multi-Units Under Construction**




Source: CMHC, Aug '04

The downtown condo market has become highly competitive this summer due to a combination of strong new construction levels and continued conversions of office and warehouse space into condo apartments and lofts. Add to this a number of newer rental apartments are in the process of converting to condo in response to the run-up in vacancy rates. As such, there will be some price discounting this winter as investors attempt to sell off newly completed condo units that have proven more difficult to rent out than they expected. This will discourage investment in new condo apartments and restrain new construction next year.

Overall, demand for new condos will remain fairly strong despite the threat of higher mortgage rates due to their price advantage over single-detached homes. A typical new condominium on the market in July was listed at a median price of $154,500 compared with a median price of close to $225,000 for unabsorbed new single-detached homes available in July across Greater Edmonton. However, sales will still throttle-back next year due to the affordability impacts of higher financing costs and escalating condo fees that need to cover rising insurance, utility and maintenance expenses.

# Rental Market

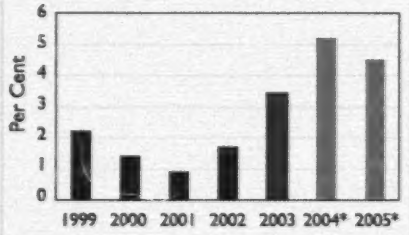
## Apartment Vacancies Peak in 2004

When CMHC reports the findings from its annual October Rental Market Survey this fall, expect a Metro-wide apartment vacancy rate of around 5.2 per cent, up from 3.4 per cent in October 2003 and 1.7 per cent in the fall of 2002. With a strong economy creating firm demand for all housing types, why are vacancies rising? As shown in Chart 9, vacancies have risen steadily since 2001 as the sources of new supply have outpaced the growth in demand across the region. As noted above, back-to-back years of strong multi-family starts in 2002 and 2003 have boosted the supply of new apartments and townhouses available for rent across Metro. Inventories of completed and unoccupied rental apartments remained high this summer relative to the current absorption rates. As well, a substantial number of new condo apartments that have either recently completed or are currently under construction have been purchased by investors who intend to rent them out. Conversions of non-residential units, such as vacant warehouse and office space, into apartments also continue in Edmonton's downtown at a brisk pace this year and many of these units will become part of the rental supply.

Many renters are also being encouraged to become home buyers thanks to a strong labour market, the lowest unemployment rates among any Metro in Canada and continued relatively low mortgage rates. As noted above, sales in the existing home market to the end of August were running at record levels this year. Going forward, look for apartment vacancies to decline slightly to the 4.5 per cent range by October 2005. This is contingent on a continuation in the slowdown in multi-family construction that began this March. Most of the new rental product entering the market is positioned at the upper end of the price spectrum (e.g. $850+/month). However, older buildings that have not been well maintained and are priced in the $600-$800 rent ranges will also experience higher vacancies this fall. Vacancies in the moderately priced rentals of under $500/month are expected to remain well below-average but will nonetheless show some elevation from the numbers witnessed in October 2003.

Among Canada's CMAs, Edmonton experienced the strongest back-to-back annual percentage increases for average apartment rents in 2001 and 2002. In 2003, higher vacancies caused rent increases to weaken and this year we anticipate little change in average rent levels as landlords attempt to bolster occupancy levels. Many new buildings are offering numerous incentives such as one month free rent, free cable TV, high-speed internet or two-year leases in order to lure tenants from older rental properties. Meanwhile, prices for utilities and building materials, as well as property taxes and insurance have all been on the rise this year, and property managers are feeling the pinch as net operating incomes get squeezed. Better times are around the corner for landlords in 2005. Higher mortgage rates will help reduce the losses to home ownership and the supply of new units coming onto the market will start to throttle back. Poorer rates of return on these real estate assets this year will send investors looking elsewhere, reducing the financing dollars for new rental units and investment condos. With vacancies on the downswing next summer, landlords will try to bolster their bottom lines with a modest rent hike next fall.

Chart 9
**Apartment Vacancy Rates**




Source, *Forecast: CMHC



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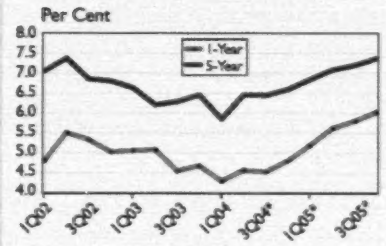
## Mortgage Rate Outlook

Interest rates in both Canada and the United States have begun to increase in the summer of 2004 and we anticipate further rate hikes in the months ahead. In Canada, the increasing pace of inflation and continued strong economic growth prompted the Bank of Canada to push rates upward in early September. The Bank of Canada has expressed concern about an economy that is close to capacity and has seen the need to reduce monetary stimulus to avoid a build up of inflationary pressures. In the USA, the long-awaited tightening cycle began in June. With the economy gaining traction in September, the expectation remains that the U.S. Federal Reserve Board will tighten monetary policy at a measured pace going forward into 2005.

One, three, and five-year posted closed mortgage rates in Canada are expected to remain relatively flat to slightly higher for the remainder of this year, having already followed the move up in bond yields this spring. Next year, rates will increase by a further 50-100 basis points to 4.75-6.00, 6.00-7.00 and 6.75-7.75 per cent range respectively.

Chart 10
**Mortgage Interest Rates**




Source/*Forecast: CMHC, Aug. '04

# Economic Overview

## Strong Economy Will Sustain Housing Demand

Alberta continues to be a leader in job creation and is forecast to have the second fastest rate of employment growth in the nation in 2004. Lofty oil and natural gas prices are generating enormous cash flows and profits for producers. The entire energy sector is bolstering capital budgets, good news for a crowd of industries such as refiners, drillers, fabricators and oil field service suppliers. The province's export earnings are also benefiting from the high prices for forestry, petroleum and coal product shipments.

The Edmonton Capital Region is the leading supply, service and staging area for extraction industries such as oil, natural gas and mining in both Central and Northern Alberta and the NWT. As such, the region is well placed to benefit from a range of activities derived from these key resource industries. Alberta Economic Development's June 2004 inventory of major Alberta projects reports a staggering tally of current and potential economic activity for the capital region and Northeastern Alberta. The count stretches into the tens of billions of dollars, just in terms of projects that are either currently underway or set to go by the end of 2005.

Buoyant construction activity within the city also continues to be a positive for the local economy. As of August, the city of Edmonton reported that the value to total building permits issued had increased by over 34 per cent to $921.2 million. While new housing accounts for a big chunk of this, publicly-funded infrastructure projects abound across the city and are contributing heavily to the increase in construction activity this year. A $26 million expansion and redevelopment of the Shaw Conference Centre got underway this summer and a $41 million student residence is taking shape on the Grant MacEwen College downtown campus. At the University of Alberta, over a half dozen construction cranes are on site with over $1 billion worth of construction that has either broken ground or is ready to begin this year. The retail sector continues to expand at a rapid pace and computer giant Dell Inc. will set up a new call centre in downtown Edmonton that will create close to 500 jobs when at full capacity next year.

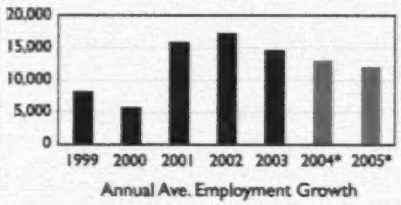
Another positive for the Metro economy is the windfall of energy royalties to the provincial government. Alberta Finance announced this September that oil and gas royalties will be $4 billion higher than predicted in the spring budget for FY 2004-2005. Being the capital city, the strong fiscal position of the provincial government creates an overall feeling of optimism, especially when tied to strong energy prices that show little sign of abating in the months ahead. Government spending on items such as health, education and infrastructure will remain at high levels, which should sustain the demand for labour and uphold consumer and business confidence across the region.

### Continued Job Growth

In 2003, overall job creation in the Edmonton CMA recorded impressive gains. At 14,625 new positions, employment growth was 2.8 per cent higher than 2002. So far this year, job creation has throttled-back but is still on track for an annual growth rate of 2.4 per cent range or around 13,000 new jobs. Much of the job creation so far this year has come from the goods sector, in particular manufacturing. In the service sector, growth has come from trade, health care and the finance, insurance and real estate industries. In 2005, employment growth will remain above the two per cent range, for a net increase of close to 12,000 new jobs.

Along with mortgage rates, income growth and job creation, another major factor impacting housing demand is net migration. Alberta's population growth continues to be the highest among Canadian provinces thanks in large part to relatively strong in-migration. The strong economy of the Edmonton region has produced one of the lowest unemployment rates of all Canadian metropolitan areas in recent years and this has drawn large numbers of job seekers to the region. While in-migration to the region is expected to remain strong by historic standards, the overall number of newcomers entering the region will throttle-back from the peak numbers recorded in 2002. This will have more to do with how Edmonton's labour market conditions compare with other centres. For example, with the BC economy on the mend in 2004, fewer people will be coming into Alberta from that province looking for jobs in the months ahead. Nonetheless, with the price of oil hitting a record $50 (U.S.) per barrel in September, many unemployed Canadians will continue to see the Edmonton region as a place of opportunity relative to other locations across the country. Total population of the CMA is estimated at near one million people this year, with net migration into the region expected at close to 9,000 people in both 2004 and 2005.

Chart 11
**Job creation**




Source: Statistics Canada
*Forecast: CMHC

## CMHC FORECAST SUMMARY

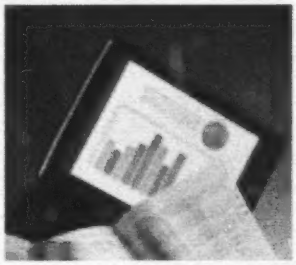
Edmonton Housing Market Outlook - October 2004

| | 2002 | 2003 | %Chg | 2004* | %Chg | 2005* | %Chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS®(1) active listings (annual average) | 2,415 | 3,954 | 63.7% | 4,500 | 13.8% | 3,800 | -15.6% |
| MLS® Sales | | | | | | | |
| Single-family | 10,411 | 11,097 | 6.6% | 12,250 | 10.4% | 11,500 | -6.1% |
| Condominium | 4,194 | 4,268 | 1.8% | 4,650 | 9.0% | 4,400 | -5.4% |
| Total | 15,619 | 16,277 | 4.2% | 17,850 | 9.7% | 16,800 | -5.9% |
| MLS® Price | | | | | | | |
| Single-family | 171,599 | 185,569 | 8.1% | 201,000 | 8.3% | 211,000 | 5.0% |
| Condominium | 109,726 | 124,671 | 13.6% | 135,000 | 8.3% | 142,000 | 5.2% |
| Average | 150,258 | 165,541 | 10.2% | 179,500 | 8.4% | 188,500 | 5.0% |
| **New Home Market** | | | | | | | |
| Starts | | | | | | | |
| Single-family | 6,860 | 6,391 | -6.8% | 6,300 | -1.4% | 5,900 | -6.3% |
| Multiple-family | 5,721 | 5,989 | 4.7% | 4,250 | -29.0% | 4,100 | -3.5% |
| Total | 12,581 | 12,380 | -1.6% | 10,550 | -14.8% | 10,000 | -5.2% |
| Average New House Price | | | | | | | |
| Single-family | 204,921 | 223,507 | 9.1% | 238,000 | 6.5% | 252,000 | 5.9% |
| **Rental Market** | | | | | | | |
| Vacancy rate (October) | 1.7 | 3.4 | | 5.2 | | 4.5 | |
| Rental rate, 2 bedroom (yr/yr % chg) | 8.4 | 1.8 | | 0.0 | | 1.0 | |
| **Forecast Assumptions** | | | | | | | |
| Mortgage rate (3 year term) | 6.28 | 5.82 | | 5.67 | | 6.53 | |
| Mortgage rate (5 year term) | 7.02 | 6.39 | | 6.33 | | 7.12 | |
| Employed | 522,050 | 536,675 | 2.8% | 549,675 | 2.4% | 561,675 | 2.2% |
| Employment growth (# jobs) | 17,225 | 14,625 | | 13,000 | | 12,000 | |
| Unemployment rate | 5.1 | 5.1 | | 4.9 | | 5.1 | |
| Net-migration (July 1 - June 30) | 12,485 | 9,500 | -23.9% | 9,000 | -5.3% | 9,000 | 0.0% |

* CMHC Forecast

Source: CMHC, Statistics Canada, Edmonton Real Estate Board

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

## KEEP ON TOP OF THE HOUSING MARKET

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